Proposed 2027−28 Operating Budget Detail

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2027–28 Budget in Brief

CalSTRS' 2025–28 Strategic Plan establishes the goals and measurable objectives that guide organizational priorities through June 30, 2028. In support of our plan, resource planning is integrated with the strategic planning process to align financial and staffing resources with the capabilities needed to administer the system, deliver services and advance CalSTRS' strategic priorities. The proposed 2027–28 Operating Budget reflects this alignment and provides the resources necessary to support the organization's operational and strategic objectives in the upcoming fiscal year.[1]

Aligned with these objectives, CalSTRS' proposed 2027–28 budget includes three major **Operating Budget Proposals**: **BenefitConnect System Support** to maintain the new pension administration system; a two-year **Investment Management Plan** to expand institutional investment capabilities; and **Enterprise Support** to advance the 2025–28 Strategic Plan, technology modernization, and information security and compliance needs.

Moreover, this budget includes adjustments for **Other Budgetary Changes** that represent routine annual adjustments to nondiscretionary administrative costs. This includes employee compensation adjustments and the Pro Rata Assessment issued by the Department of Finance (DOF) for the cost of providing central administrative services.

The proposed **2027–28 Operating Budget is $551.2 million**, an increase of $104.0 million, or 23.3%, compared with the 2026–27 adopted budget. The proposal also adds 164 new authorized positions, representing an 11.0% increase.

Over the past five years, CalSTRS' Operating Budget grew by an average of approximately 8.5% annually, while authorized positions grew by an average of 3.9% annually. The proposed 2027–28 increase is higher than these historical averages, reflecting the timing and scale of several significant planned investments converging in the same fiscal year. These investments are primarily driven by BenefitConnect System Support, the first year of the two-year Investment Management Plan, and enterprise priorities necessary to support CalSTRS' operations and strategic objectives.

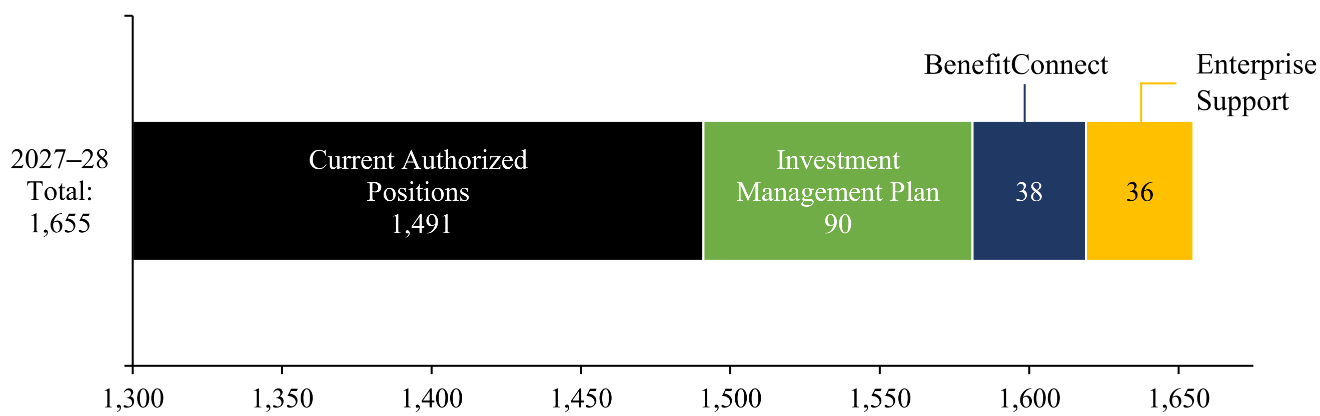
[1] The Operating Budget does not represent all of CalSTRS' expenditures, such as benefit payments, external investment advisor fees, and certain other continuously appropriated costs. These costs are authorized through constitutional or statutory authority and do not require board approval. Additional detail regarding CalSTRS' total expenditures is provided in CalSTRS *Annual Budget Report.*

The following table summarizes CalSTRS' 2025–26 actual expenditures, the 2026–27 adopted Operating Budget, and the proposed 2027–28 Operating Budget, including year-over-year changes by budget category.

Three-Year Overview
(dollars in millions)

Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	$ Change	% Change
Salaries	$170.9	$203.2	$241.7	$38.5	18.9%
Benefits	84.5	89.0	113.3	24.3	27.3%
Operating Expenses and Equipment	111.1	155.0	196.2	41.2	26.6%
Total	**$366.5**	**$447.2**	**$551.2**	**$104.0**	**23.3%**

The proposed 2027–28 Operating Budget includes 1,655 authorized positions, reflecting an increase of 164 positions, or 11.0%, compared to 2026–27 authorized positions. The additional positions support the Investment Management Plan, BenefitConnect System Support, and Enterprise Support proposals and are aligned with CalSTRS' strategic and operational priorities. A breakout of authorized positions by branch is provided in *Appendix 2*.



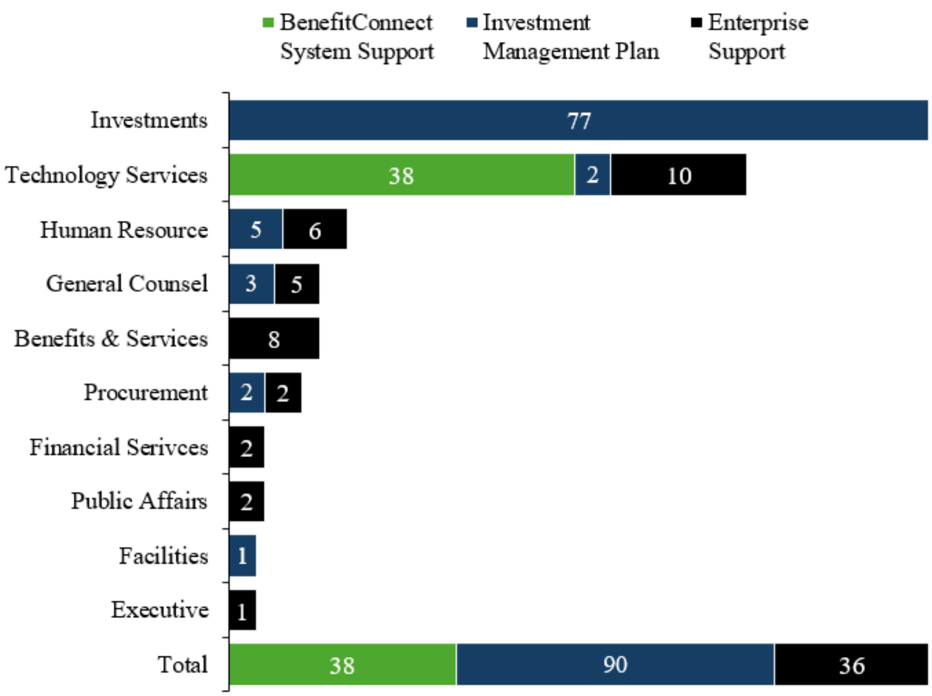
<u>**Proposed 2027–28 Operating Budget Changes – $104.0 million**</u>

The proposed 2027–28 Operating Budget includes an increase of $104.0 million, broken out by **Operating Budget Proposals** and **Other Budgetary Changes**. Of the total $104.0 million increase, Operating Budget Proposals represent an increase of $85.3 million. Other Budgetary Changes represent an increase of $18.7 million.

Operating Budget Proposals – $85.3 million, 164 positions

Operating Budget Proposals include $85.3 million for three major proposals: **BenefitConnect System Support** to maintain the new pension administration system; year one of a two-year **Investment Management Plan** to expand institutional investment capabilities; and **Enterprise Support** to advance the 2025–28 Strategic Plan, technology modernization, and information security and compliance needs.

In response to the board's July discussion regarding position growth, the table below summarizes the distribution of the 164 authorized positions included in the proposed 2027–28 Operating Budget by proposal and business area.



	Positions	% of Total
Investments	77	47.0%
Technology Services	50	30.5%
Human Resource	11	6.7%
General Counsel	8	4.9%
Benefits & Services	8	4.9%
Procurement	4	2.4%
Financial Serivces	2	1.2%
Public Affairs	2	1.2%
Facilities	1	0.6%
Executive	1	0.6%
Total	164	100.0%

<u>BenefitConnect System Support – $46.8 million, 38 positions</u>

This proposal includes $46.8 million to transition BenefitConnect maintenance and operations from temporary project funding to ongoing operational support and establish the resources necessary to sustain a secure, reliable and current pension administration platform. This proposal will provide permanent funding to establish a dedicated BenefitConnect support division, within the Technology Services branch, and provide ongoing resources for consulting services, cloud infrastructure, licensing, and other system operating costs.

Of the $46.8 million, $8.1 million is to establish 38 authorized positions, $4.0 million provides temporary staffing support during the transition to permanent roles, and $34.7 million supports ongoing system maintenance, enhancements, cloud services, licensing and consulting resources.

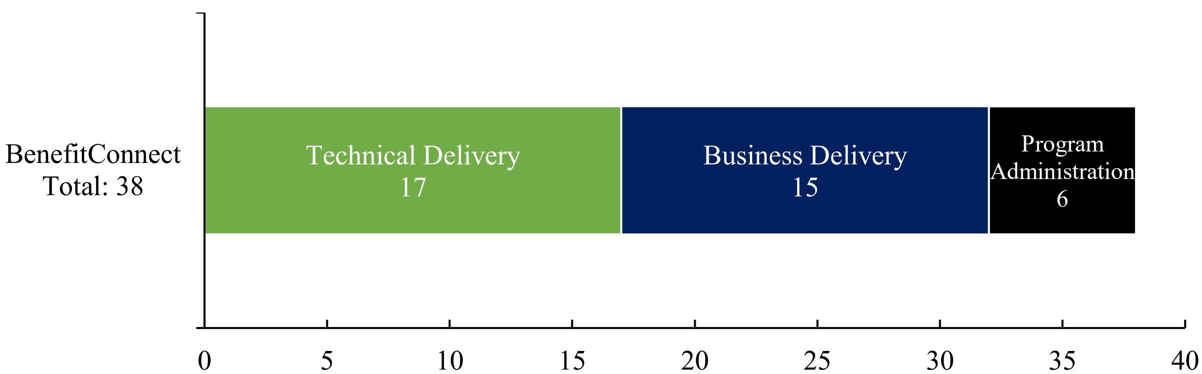
The proposal also requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts

BenefitConnect went live in September 2025, and is now integral to CalSTRS' core pension administration operations. These resources will support system performance and reliability, evolving member and business needs, and legislative and regulatory changes. This ongoing operational capacity supports CalSTRS' statutory responsibility to deliver more than $1.6 billion in monthly benefit payments to more than one million members and beneficiaries, while serving the school employer community.

Authorized Positions – $8.1 million, 38 positions

The proposal includes $8.1 million to establish 38 authorized positions to support BenefitConnect within the Technology Services branch. These resources will provide ongoing system governance, operational oversight and technical support while strengthening coordination across business and technology teams.

The additional resources will provide system support, while bridging the gap between business and technical teams to deliver seamless service to members and stakeholders. In addition, resources will be critical in managing enhancements, ensuring data integrity, driving process optimization, and coordinating cross-functional delivery efforts. The following chart summarizes the proposed authorized positions by business function.



- *Technical Delivery – $3.9 million, 17 positions*

Technical Delivery provides specialized technology capacity necessary to maintain a secure, reliable and scalable BenefitConnect platform. Additionally, technical delivery ensures the system integrates effectively with existing technological environments all while meeting performance, compliance, and user requirements. Establishing a strong technical foundation is vital to reducing operational risk and strengthening long-term system sustainability. These 17 positions will perform the following key tasks:

- Oversee technical software development required for maintaining and enhancing the system.
- Manage technical architecture, security, and identity management.
- Develop and test operational reports.
- Develop and maintain interfaces to other systems.
- Facilitate the identification, development, documentation, and approval of technical delivery requirements with both business and information technology subject matter experts.
- Manage operations and delivery of technical components of BenefitConnect in collaboration with contractor staff and vendors.
- Write software code for enhancements, fixes, or to implement other changes while considering business context and operational constraints.
- Oversee technical testing of the application and validate testing results.

- *Business Delivery – $3.0 million, 15 positions*

Business Delivery provides the operational and functional expertise necessary to align BenefitConnect capabilities with CalSTRS' business requirements, fiscal controls and member service needs. These resources will strengthen coordination between business and technology teams and support the timely implementation of system enhancements and regulatory changes. These 15 positions will perform the following key tasks:

- Perform financial reviews and analytical system reviews to ensure BenefitConnect continues to meet fiscal system control requirements, including editing process workflows, audit trails, operational controls, accounting treatments, reports and system interfaces.
- Perform research and analysis to determine business and system impacts while ensuring compliance with pension laws, rules, and regulations.
- Triage and prioritize fixes and enhancements against available capacity within scheduled releases.
- Collaborate with both business and information technology subject matter experts to collect, verify, develop, and document applicable functional requirements.
- Participate in the support of planning, executing, and closing test phases.
- Engage in quality assurance of technical product documentation, artifacts, and business requirements.

- *Program Administration – $1.2 million, 6 positions*

Program Administration ensures centralized coordination and oversight of all components of the system—technical, business, and strategic. These roles are essential to managing the program scope, schedule, budget, contracts, personnel and risks, while ensuring alignment across technical and business workstreams. These 6 positions will perform the following key tasks:

- Oversee staff services and technical functions, including system requirements tracing and change control, information technology contracts administration, financial and operational reporting, and project management.
- Develop and document requirements management strategies and plans; participate in planning, organizing, and documenting changes to the BenefitConnect requirements.
- Oversee contract terms, service level agreements and deliverables.
- Develop, document, and maintain written processes and procedures to support ongoing system-generated communications and forms.
- Support communication and engagement efforts by planning, researching and developing materials and presentations.
- Develop and manage integrated change control, scheduling, scope management, cost management, vendor management, risk management, and procurement planning.

Temporary Transitional Funding – $4.0 million

The proposal includes $4.0 million in temporary funding to fund 26 project related staff until they can be transitioned into permanent roles within the organization. This funding will preserve institutional knowledge, support knowledge transfer and maintain operational continuity as BenefitConnect transitions to a sustainable operating model.

Service Contracts – $34.7 million

Lastly, this proposal includes $34.7 million, net of legacy system cost savings of $5.3 million, for ongoing BenefitConnect maintenance, operations and system enhancements. Funding will support system maintenance, cloud services, licensing and consulting resources necessary to maintain a secure, reliable and current pension administration platform.

Extension of Pension Solution Project Appropriations

The proposal also requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The requested extension would allow funds to remain available for encumbrance or expenditure through June 30, 2029, and for liquidation through June 30, 2031. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts and costs from temporary project funding to ongoing CalSTRS operations.

Investment Management Plan
Two-year proposal: $57.8 million, 162 positions

The proposed 2027–28 Operating Budget includes the first year of the plan, $31.0 million and 90 authorized positions. An additional $26.8 million and 72 authorized positions are planned for 2028–29, bringing the two-year total to $57.8 million and 162 authorized positions. Of the 162 positions, 139 are within the Investments Branch and 23 are disbursed across five administrative support business areas to implement and sustain the plan.

The two-year Investment Management Plan provides phased resources to strengthen CalSTRS' institutional investment capabilities and supports the continued growth and complexity of the investment portfolio. A two-year approach provides the Investments Branch with flexibility to strategically phase resources, scale capacity, and sequence operational infrastructure, governance enhancements, and technology modernization in alignment with portfolio growth and evolving investment strategies. The longer planning horizon supports specialized recruitment and modernization efforts that can be difficult to execute within a single-year cycle, while preserving the ability to adjust resource deployment as conditions evolve. This approach also establishes clear, evidence-based checkpoints to assess progress and recalibrate as needed.

The table below provides the two-year resource plan by investment strategy. As approved, the funding and positions associated with each year of the plan will be incorporated into CalSTRS' baseline Operating Budget in the applicable fiscal year. Additional details are provided in *Appendix 3*.

Two-Year Resource Plan
(*dollars in millions*)

	2027–28		2028–29		Two-Year Total	
Investment Strategy	**Cost**	**Positions**	**Cost**	**Positions**	**Cost**	**Positions**
AUM Growth	$12.5	29	$8.7	20	$21.2	49
Evolution Of Investment Strategy	8.3	20	10	22	18.3	42
Operational Infrastructure & Governance	4.5	15	3.5	13	8.0	28
Technology Transformation	3.2	13	2.6	7	5.8	20
Investment Support	2.5	13	2	10	4.5	23
Total	**$31.0**	**90**	**$26.8**	**72**	**$57.8**	**162**

- *AUM Growth – $21.2 million, 49 positions*

For fiscal year 2027–28, $12.5 million and 29 permanent authorized positions are proposed to manage a larger base of assets, and successfully growing at the actuarial rate of return. This considers our continued integration of the Collaborative Model, expanding internal management and direct investing capabilities maintaining a highly diversified portfolio with 65%-70% managed internally (versus hiring expensive external managers). In fiscal year 2028–29, the Plan forecasts an additional $8.7 million and 20 positions, resulting in a two-year investment of $21.2 million and 49 positions.

- *Evolution Of Investment Strategy – $18.3 million, 42 positions*

For fiscal year 2027–28, $8.3 million and 20 permanent authorized positions are proposed to meet our return objectives, diversify the portfolio and manage risks, by evolving the investment strategy along the following dimensions: (1) Division strategies; (2) Diversification including increased allocations in infrastructure, international markets, uncorrelated assets, and private credit; (3) Risk and liquidity management across the total fund; and (4) Dynamic asset allocation (e.g. expanded overlay function, cross-asset investment structures). In fiscal year 2028–29, the Plan forecasts an additional $10 million and 22 positions, resulting in a two-year investment of $18.3 million and 42 positions.

- *Operational Infrastructure & Governance – $8.0 million, 28 positions*

For fiscal year 2027–28, $4.5 million and 15 permanent authorized positions are proposed to strengthen our operational infrastructure, expand governance, and ensure continued evolution of risk management to enable execution of the investment strategies, ensure a strong governance framework, protect the portfolio and preserve capital. In fiscal year 2028–29, the Plan forecasts an additional $3.5 million and 13 positions, resulting in a two-year investment of $8 million and 28 positions.

- *Technology Transformation – $5.8 million, 20 positions*

For fiscal year 2027–28, $3.2 million and 13 permanent authorized positions are proposed to advance Technology Transformation. In fiscal year 2028–29, the Plan forecasts an additional $2.6 million and 7 positions, resulting in a two-year investment of $5.8 million and 20 positions.

Technology Transformation is integral to strengthening CalSTRS' investment analytics, data infrastructure and technology capabilities. As the portfolio grows in scale and complexity, modern investment platforms and integrated data capabilities are increasingly important to support data-driven decision-making, timely risk oversight and operational resilience.

These resources will support the implementation, governance and optimization of investment platforms, portfolio analytics and integrated data capabilities across asset classes, improving efficiency, accuracy and transparency while ensuring CalSTRS' investment technology infrastructure continues to evolve with the needs of the portfolio.

- *Investment Support – $4.5 million, 23 positions*

For fiscal year 2027–28, $2.5 million and 13 permanent authorized positions are proposed to support implementation of the Investment Management Plan. In fiscal year 2028–29, the Plan forecasts an additional $2.0 million and 10 positions, resulting in a two-year investment of $4.5 million and 23 positions.

Implementation of the plan will increase the scale and complexity of investment activities and, correspondingly, the demand for enterprise services supporting the Investments Branch.

Additional capacity is therefore needed across key administrative support functions to enable effective implementation and sustain ongoing investment operations.

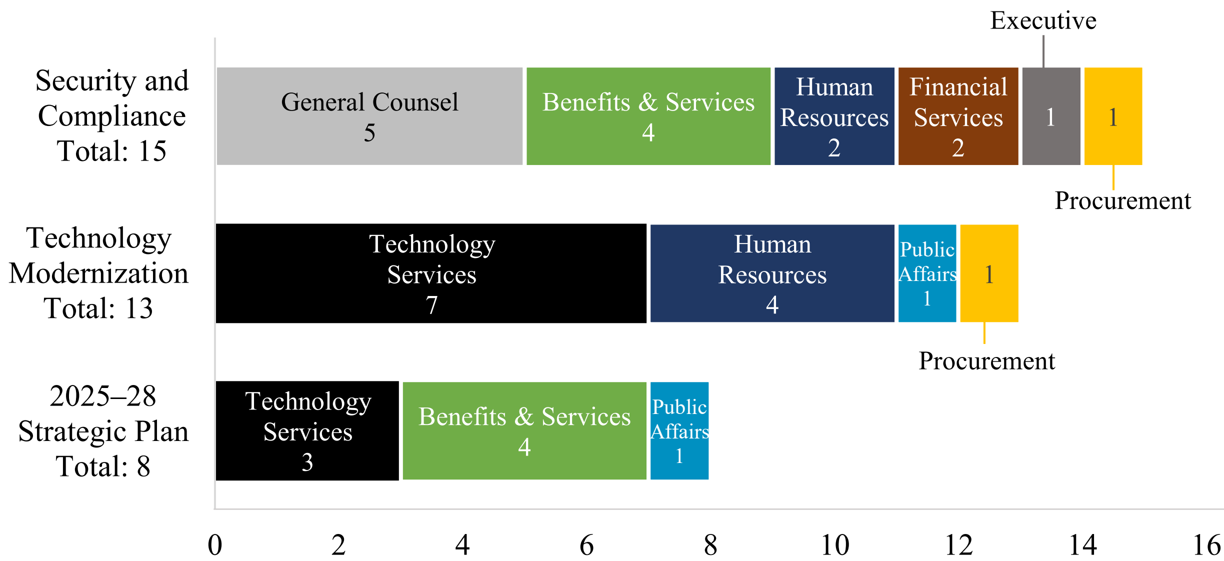
These resources will provide additional capacity across Facilities, Human Resources, Procurement, General Counsel and Technology Services, strengthening the operational infrastructure supporting the Investments Branch and enabling investment professionals to remain focused on portfolio management, strategic execution and long-term investment objectives.

Enterprise Support – $7.5 million, 36 positions

The proposed 2027–28 Operating Budget includes $7.5 million and 36 authorized positions to strengthen CalSTRS' enterprise-wide operational capacity and support priorities identified in the 2025–28 Strategic Plan. These resources are intended to enhance organizational resilience, advance information security and compliance capabilities, modernize enterprise technology, and provide the infrastructure and support necessary to meet evolving business needs. Of the $7.5 million, $6.4 million will establish 36 authorized positions across eight business areas, and $1.1 million will support related service contracts.

This proposal is designed to build sustainable internal capacity, reduce operational risk, and ensure enterprise functions keep pace with increasing organizational complexity, technology needs, and regulatory and compliance requirements. Together, these resources provide foundational support necessary for CalSTRS to effectively deliver core programs and services.

The following chart summarizes the proposed authorized positions by function and business area.



Authorized Positions – $6.4 million, 36 positions

- *Security and Compliance – $2.8 million, 15 positions*

Resources for reinforcing CalSTRS' information security and compliance infrastructure are essential to safeguard operations and ensure legal, regulatory, and procedural alignment. These resources strengthen CalSTRS' information security, compliance, and operational capabilities to safeguard operations, meet legal and regulatory requirements, and support effective service delivery. The positions provide capacity across personnel management, compliance, audit, financial and benefit administration, cybersecurity, fraud prevention, and public records functions. These 15 positions will perform the following key tasks:

  - Prepare, review, analyze personnel management activities, including classification, compensation, and position management; support and administer recruitment and selection.
  - Oversee development, implementation and ongoing maintenance of compliance policies.
  - Execute complex audits, evaluate controls, analyze evidence, review work papers, and communicate results efficiently to support annual plan completion; and prepare leadership reports.
  - Process billing requests, coordinate with employers, resolve corrections, and complete rework and recalculations for cases affected by system changes.
  - Conduct complex account reviews for over 400 survivor benefits and disability cases each month, assist production team with application processing, perform audits and rework survivor and disability payments.
  - Provide leadership, oversight, and mentoring to the Defense and Monitoring Unit, including managing staff, projects, and organizational governance.
  - Lead the research, development, and implementation of advanced information security measures, fraud detection and mitigation.
  - Process Public Records Act requests, Form 700 and Form 600H filings; process subpoenas, and respond to Information Practices Act and citizens' complaints.

- *Technology Modernization – $2.3 million, 13 positions*

Resources for building, supporting, and modernizing our technology foundation remains essential to delivering high-quality services and enabling more efficient operations. These resources strengthen CalSTRS' technology foundation and expand the capacity needed to support reliable systems, modernize enterprise applications, and improve operational efficiency. The positions support the SAP solutions center, enterprise communications, infrastructure, data solutions, and financial planning for major technology initiatives (excluding BenefitConnect). These 13 positions will perform the following key tasks:

  - Oversee planning and implementation for enhancements associated with HR technology initiatives.

- Provide advanced functional support for HR applications, including system configuration, testing, data management, access controls, upgrades, and issue resolution.
- Manage HR technology support requests, user guidance and training, system testing, and coordination across business and technology teams.
- Support enterprise communications through CalSTRS intranet sites, communications metrics, and related organizational communications.
- Manage budget planning, forecasting, reporting, and multi-year financial planning for BenefitConnect and CalSTRS IT projects, including expense projections and transition planning from projects to ongoing programs.
- Oversee secure cloud, server, and storage infrastructure; support disaster recovery and IT audit activities; and provide technical leadership in infrastructure administration and cybersecurity.
- Oversee the design, integration, administration, and enhancement of SAP solutions and related systems, including system changes, testing, incident response, architecture, and reporting.

- *2025–28 Strategic Plan – $1.3 million, 8 positions*

The proposed resources were previously presented to the board in May 2025, when the 2025–28 Strategic Plan was adopted. Consistent with CalSTRS' strategic priorities, these resources will strengthen operations, enterprise communications and innovation capabilities across the organization. Specifically, they will support member engagement and defined contribution program operations, expand member outreach, enhance board member and executive communications, advance artificial intelligence opportunities and governance, and support change management efforts that improve operational efficiency and modernize business processes. The eight positions will perform the following key tasks:

- Respond to member and stakeholder inquiries about Pension2 accounts, assist with enrollments, document and analyze member activities, schedule benefits planning sessions, perform account research, support administrative processes, and collaborate on cross-functional teams.
- Plan and deliver regional outreach and education, develop training programs, maintain training content and materials, lead training and quality management programs, conduct presentations and counseling, promote Pension2, support member engagement and conversion, oversee data and analytics functions, analyze outreach effectiveness, develop marketing strategies, and assist with program operations.
- Develop digital and presentation content to support board members, executives, and staff in communicating with internal and external audiences; collaborate across business areas to ensure accurate, aligned messaging; and produce communications on complex issues to support strategic organizational priorities.

- Test and validate artificial intelligence solutions, support integration with enterprise applications, and provide ongoing operational support as AI capabilities transition into production.

Service Contracts – $1.1 million

The proposal includes $1.1 million for service contracts and operating expenses and equipment. The funding will be used to expand security services for board meetings and maintain mail delivery equipment at the CalSTRS headquarters. It will also be used for maintenance contracts at Member Services Centers and address increased facilities costs for two Member Service Center locations. This funding is essential for maintaining reliable operations, effective outreach, and consistent service delivery.

Other Budgetary Changes – $18.7 million

Other Budgetary Changes is increasing by $18.7 million and represents estimated changes for standard nondiscretionary administrative expenditures that occur routinely each year. A summary of each adjustment is provided below.

<u>Administrative Expenses – $18.7 million</u>

- *Employee Compensation:* Total employee compensation adjustments include an estimated $15.1 million increase in salaries, benefits and incentives, primarily composed of 3.0% for general salary increases, and 5.0% for merit salary adjustments (MSA) for eligible employees. MSAs are annual increases within existing classification pay scales based on job performance.

- *Pro Rata Assessment:* CalSTRS is required by the DOF to contribute on a pro rata basis for the cost of central administrative services. The Pro Rata Assessment represents General Fund recoveries of shared statewide general administrative costs from departments that benefit from shared services. The Pro Rata Assessment includes an estimated increase of $3.6 million, based on a five-year historical average growth rate of 11.6%. This estimate will be refined when CalSTRS receives the final assessment in October 2026.

Additional Budget Authority

Additional budget authority for the proposed 2027–28 Operating Budget is requested for unanticipated expenditures as described below. This authority is requested as part of the Operating Budget each year.

Teachers’ Retirement Fund Support Appropriation Savings

Pursuant to *Appendix III.1 of the Teachers’ Retirement Board Governance Manual*, if CalSTRS ends the year with savings in the Teachers’ Retirement Fund (TRF) support appropriation, up to 3% of the Operating Budget can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation, upon board approval, and would be used for unanticipated system costs and to promote better service to the system’s membership. Staff is requesting the board to authorize the availability of up to 3%, or $14.5 million of the $483.2 million 2027–28 TRF support appropriation. Additional details regarding the TRF are provided in *Appendices 1* and *3*.

Proposed 2027–28 Operating Budget Revision Authority

If the 2027–28 Operating Budget requires revision, as required by the Administration, staff is requesting authorization to revise the 2027–28 Operating Budget for such adjustments. Since these revisions would be required, staff is seeking the board’s authorization to adjust the Operating Budget without further board action. In the event the 2027–28 Operating Budget is revised, staff will inform the board, outlining any revisions.

Appendices

In addition to the analysis provided in the agenda, the following appendices are attached to provide supplemental information about CalSTRS' prior year expenditures, the 2026–27 adopted Operating Budget and the proposed 2027–28 Operating Budget.

Appendix 1

Operating Budget by Fund

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with the deferred compensation plans and programs. The Teachers' Retirement Law (Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. Accordingly, the proposed 2027–28 Operating Budget is administered through the Teachers' Retirement Fund (TRF), Teachers' Deferred Compensation Fund (TDCF) and the Teachers' Health Benefits Fund (THBF).

Teachers' Retirement Fund

The TRF was established by California Education Code section 22400 and is the largest fund CalSTRS administers. It was established to account for a multiple-employer, cost-sharing defined benefit plan composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit and Replacement Benefits programs, as well as a separate account for purchasing power protection. The majority of CalSTRS' operational expenses are sourced from the TRF, which includes 1,639 authorized positions.

Teachers' Retirement Fund

(dollars in thousands)

Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	$ Change	% Change
Salaries	$169,685	$201,659	$239,774	$38,115	18.9%
Benefits	83,748	88,075	112,002	23,927	27.2%
Operating Expenses and Equipment	110,527	153,754	194,879	41,125	26.7%
Total	**$363,960**	**$443,488**	**$546,655**	**$103,167**	**23.3%**

Teachers' Deferred Compensation Fund

The TDCF was established pursuant to Education Code section 24976 and is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries. The TDCF includes 14 authorized positions.

Teachers' Deferred Compensation Fund
(dollars in thousands)

Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	$ Change	% Change
Salaries	$1,012	$1,189	$1,581	$392	33.0%
Benefits	593	742	1,025	283	38.1%
Operating Expenses and Equipment	364	795	833	38	4.8%
Total	**$1,969**	**$2,726**	**$3,439**	**$713**	**26.2%**

Teachers' Health Benefits Fund

The THBF is used to administer a cost-sharing, multiple-employer other postemployment benefit plan known as the Medicare Premium Payment (MPP) Program. The fund was established pursuant to Education Code section 25930. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. Members who enrolled in Medicare after July 1, 2012, are not eligible for CalSTRS' payment of late enrollment surcharges. Also, members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program. THBF includes two authorized positions.

Teachers' Health Benefits Fund
(dollars in thousands)

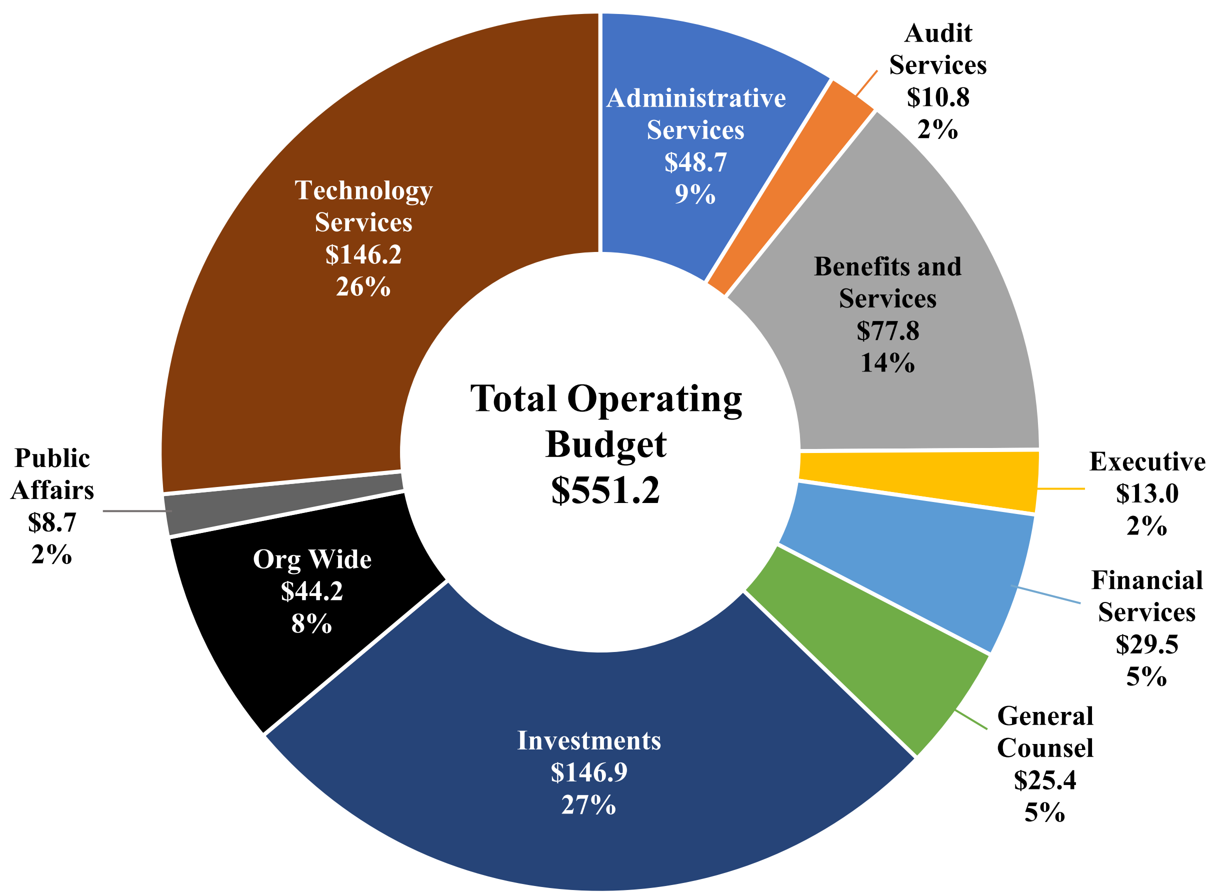
Budget Category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28	$ Change	% Change
Salaries	$238	$313	$330	$17	5.4%
Benefits	133	214	228	14	6.5%
Operating Expenses and Equipment	221	483	520	37	7.7%
Total	**$592**	**$1,010**	**$1,078**	**$68**	**6.7%**

Appendix 2

Operating Budget and Authorized Positions by Branch

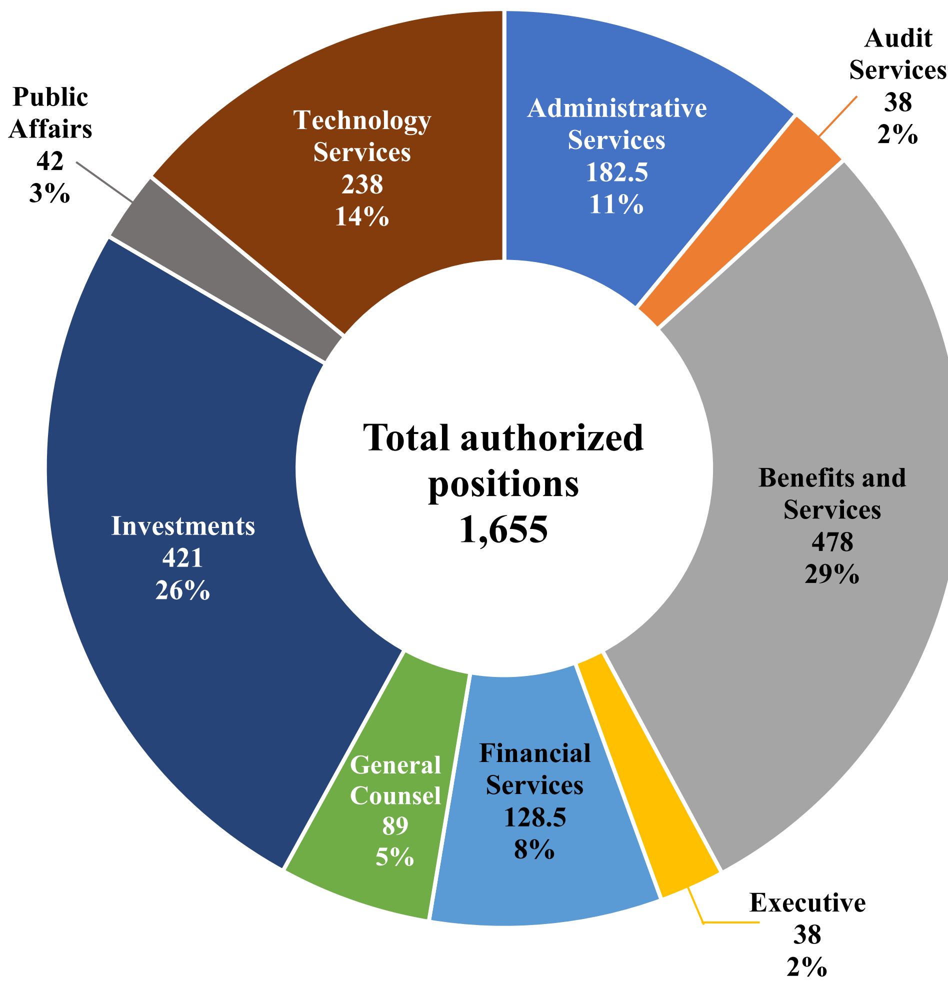
CalSTRS is divided into functional areas, each referred to as a branch. Within each branch are business areas. Each branch has a corresponding functional budget. The following chart displays CalSTRS' proposed 2027–28 Operating Budget. This includes salaries, benefits and operating expenses and equipment.

Operating Budget by Branch
(dollars in millions)



CalSTRS total workforce by branch is displayed in the following chart. The proposed 2027–28 Operating Budget has 1,655 authorized positions, reflecting a proposal for 164 new authorized positions, which is an increase 11% in CalSTRS' workforce relative to 2026–27.

Authorized Positions by Branch



Appendix 3

Investment Management Plan

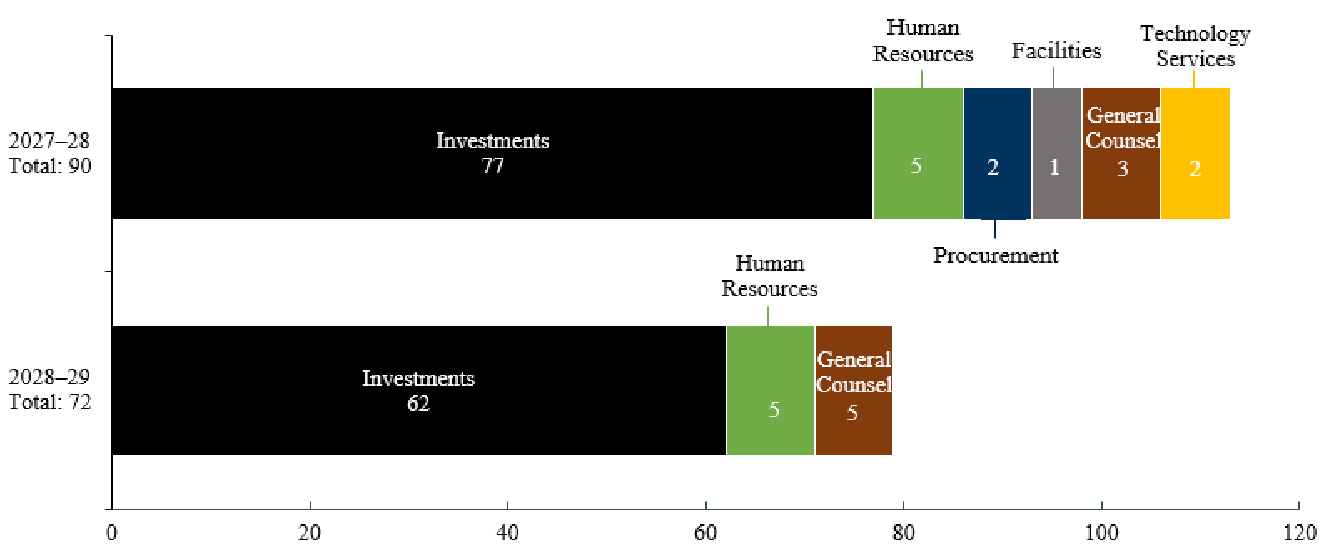
The two-year Investment Management Plan provides phased resources to strengthen CalSTRS' investment capabilities and administrative support functions required for implementation. The proposed 2027–28 Operating Budget includes the first year of the plan, $31.0 million and 90 authorized positions. Of these positions, 77 support the Investments Branch and 13 support administrative support functions.

The table below summarizes the resources planned for 2027–28 and 2028–29, which will be incorporated into CalSTRS' baseline Operating Budget in the applicable fiscal year.

Two-Year Resource Plan
(*dollars in millions*)

	2027–28		2028–29		Two-Year Total	
	Positions	Cost	Positions	Cost	Positions	Cost
Total	**90**	**$31.0**	**72**	**$26.8**	**162**	**$57.8**

The chart below shows the distribution of the total 162 authorized positions planned over the two-year period by business area.



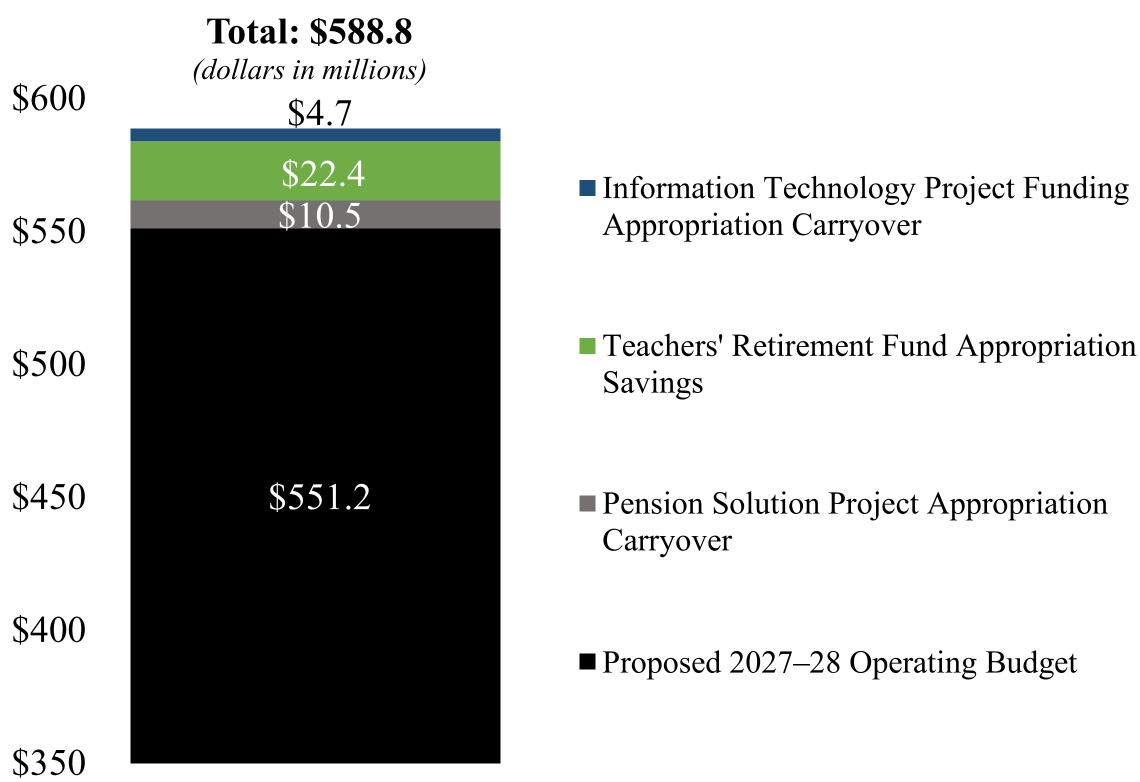
Appendix 4

Other Budget Detail

Sources of Spending Authority above the 2027–28 Operating Budget

Upon board approval, CalSTRS can expend up to $551.2 million in fiscal year 2027–28. Moreover, CalSTRS also has additional spending authority resulting from prior board approvals available for expenditure in fiscal year 2027–28. As a result, CalSTRS can end the year with total expenditures greater than the proposed 2027–28 Operating Budget. The primary sources of additional budget authority are the Information Technology Project Funding (ITPF), the TRF support appropriation savings and the Pension Solution Project appropriation carryovers.

As summarized in the following chart, total estimated spending authority above the 2027–28 Operating Budget is currently projected at $37.6 million. Based on these estimates, CalSTRS can expend up to $588.8 million in fiscal year 2027–28. Additional details are provided below.



Information Technology Project Funding Appropriation Carryover – $4.7 million

CalSTRS' baseline Operating Budget includes an annual ITPF appropriation of $18.5 million for enterprisewide projects as authorized by the Enterprise Program Investment Council (EPIC). Pursuant to the annual Budget Act each year, this amount is available to encumber for up to three years and for two additional years to liquidate. Funds not encumbered in the initial fiscal year are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on our current project plans and estimates, $4.7 million is available to encumber by June 30, 2029, and through June 30, 2031, to liquidate. The funds will be utilized as projects are approved by EPIC.

Teachers' Retirement Fund Support Appropriation Savings – $22.4 million

Pursuant to Appendix III.1 of the *Teachers' Retirement Board Governance Manual*, if CalSTRS ends the year with savings in the TRF support appropriation, up to 3% of the Operating Budget can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation, upon board approval. These savings would be used for unanticipated system costs and to promote better service to the system's membership. Upon board approval, the 2025–26 Budget Act provision includes $10.9 million to be available to encumber by June 30, 2028, and through June 30, 2030, to liquidate; and the 2026–27 Budget Act provision includes $11.5 million to be available to encumber by June 30, 2029, and through June 30, 2031, to liquidate.

Pension Solution Project Appropriation Carryover – $10.5 million

Of the current $627.8 million Pension Solution Project budget, $10.5 million represents the carryover budget authority from previously approved Pension Solution Project budget appropriations. An extension of the encumbrance and liquidation periods is requested as part of the proposed 2027–28 Operating Budget, from June 30, 2027, and June 30, 2029, to June 30, 2029, and June 30, 2031.

Operating Budget by Appropriation

The following table displays the proposed 2027–28 Operating Budget and key differences compared to what is anticipated for inclusion in the Budget Act of 2027. The Budget Act is primarily composed of the annual TRF support and the ITPF appropriation. The Budget Act does not include direct transfers, other continuous appropriations, the TDCF budget or the THBF budget. Direct transfers include the Pro Rata Assessment and Senate Bill 84 (*Chapter 50, Statutes of 2017*)[2] loan repayment, which are assessed by the DOF for all state agencies. Other continuous appropriations are primarily composed of budget for fiduciary insurance, investment audits, capital improvements and the Sustainable Investment and Stewardship Strategies division within the Investments Branch.

Proposed 2027–28 Operating Budget by Appropriation
(dollars in thousands)

Category	$ Amount
Budget Act	
Teachers' Retirement Fund Support Appropriation	$483,213
Information Technology Project Funding	18,500
Total Budget Act	**501,713**
Direct Transfers	28,294
Other Continuous Appropriations	16,648
Total Teachers' Retirement Fund	**546,655**
Teachers' Deferred Compensation Fund	3,439
Teachers' Health Benefits Fund	1,078
Total Operating Budget	**$551,172**

[2] SB 84 authorized a $6 billion supplemental payment from the state's Surplus Money Investment Fund to the California Public Employees' Retirement System to reduce long-term retirement contribution rates for all state agencies. Effective 2018–19, all state agencies were required to begin repayment of the loan.